

**Sterling Area Fire Board
Arenac County, Michigan
Financial Report
With Supplemental Information
December 31, 2005**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name STERLING AREA FIRE BOARD	County ARENAC
Audit Date 12/31/05	Opinion Date 6/26/06	Date Accountant Report Submitted to State: 6/30/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

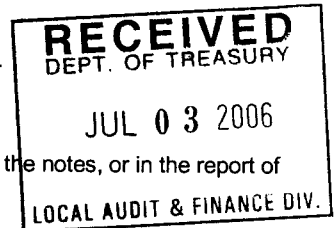
We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).



We have enclosed the following:

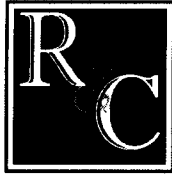
	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) ROBERTSON & CARPENTER, CPAs, P.C.			
Street Address 103 E MAIN STREET, PO BOX 69		City ROSE CITY	State MI
Accountant Signature <i>Rodney C Robertson, CPA</i>		ZIP 48654	Date 6/30/06

Sterling Area Fire Board

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ROBERTSON & CARPENTER CPAs, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Fire Board
Sterling Area Fire Board
Arenac County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Sterling Area Fire Board as of and for the year ended December 31, 2005, which collectively comprise the Fire Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sterling Area Fire Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Sterling Area Fire Board as of December 31, 2005, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on page 3 through page 7 and page 20 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robertson & Carpenter CPAs, P.C.

Robertson & Carpenter CPAs, P.C.

Certified Public Accountants

June 26, 2006

Management's Discussion and Analysis

As management of Sterling Area Fire Board (the "Fire Board"), we offer readers of the Fire Board's financial statements this narrative overview and analysis of the financial activities of the Fire Board for the year ended December 31, 2005.

Financial Highlights

- The assets of the Fire Board exceeded its liabilities at the close of the most recent fiscal year by \$145,964, (*net assets*). Of this amount, \$37,756 (*unrestricted net assets*) may be used to meet the Fire Board's ongoing obligations.
- The Fire Board's total net assets increased by \$21,094.
- As of the close of the current fiscal year, the Fire Board's general fund, the only governmental fund, reported an ending fund balance of \$37,756, an increase of \$19,045 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$37,756 or 40% percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Fire Board's basic financial statements. The Fire Board's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *Government-wide financial statements* are designed to provide readers with a broad overview of the Fire Board's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Fire Board's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire Board is improving or deteriorating.

The *statement of activities* presents information showing how the Fire Board's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the Government-wide financial statements present functions of the Fire Board that are principally supported by intergovernmental revenues (*governmental activities*). The governmental activities of the Fire Board consist of public safety (fire protection services). The Fire Board does not have any business-type activities as of and for the year ended December 31, 2005.

The Government-wide financial statements can be found on pages 8-9 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Fire Board, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Fire Board consist of one category: governmental funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the Government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a Fire Board's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Fire Board maintains one governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund.

The Fire Board adopts an annual appropriated budget for its general fund. Budgetary comparison statements or schedules have been provided for the General Fund herein to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 10-11 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-19 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Fire Board, assets exceeded its liabilities by \$145,964 at the close of the most recent fiscal year.

A portion of the Fire Board's net assets (74%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The Fire Board uses these capital assets to provide services to the community; consequently, these assets are *not* available for future spending.

Fire Board's Net Assets

	Governmental Activities 12/31/05	Governmental Activities 12/31/04
Current and Other Assets	\$ 38,756	\$ 53,661
Receivable from Other Governments	4,783	0
Capital Assets, Net	108,208	119,178
Total Assets	\$ 151,747	\$ 172,839
Current Liabilities	\$ 5,783	\$ 34,950
Long-term Liabilities Outstanding	0	13,019
Total Liabilities	\$ 5,783	\$ 47,969
Net Assets:		
Invested in Capital Assets (net of debt)	108,208	106,159
Unrestricted	37,756	18,711
Total Net Assets	\$ 145,964	\$ 124,870

The Fire Board's net assets increased by \$21,094 during the current fiscal year. Unrestricted net assets—the part of net assets that can be used to finance day to day operations, increased by \$19,045 or 102%, during fiscal year 2005.

Fire Board's Changes in Net Assets

	<u>Governmental Activities 12/31/05</u>	<u>Governmental Activities 12/31/04</u>
Revenue:		
Program Revenue:		
Charges for Services	\$ 75,044	\$ 70,310
Capital Grants and Contributions	33,999	14,543
General Revenue:		
Interest Earnings	119	97
Other	3,361	2,351
Total Revenue	\$ 112,523	\$ 87,301
Expenses:		
Public Safety	\$ 91,198	\$ 55,123
Interest on Long-term Debt	231	1,314
Total Expenses	\$ 91,429	\$ 56,437
Increase in Net Assets	21,094	30,864
Net Assets, Beginning of Year	124,870	94,006
Net Assets, End of Year	\$ 145,964	\$ 124,870

Governmental activities. The Fire Board's total governmental revenues increased by \$25,222 from last fiscal year. This was primarily attributed to an increase in grant revenue. Expenses increased by \$34,992. The increase was primarily due to grant money spent to purchase eligible equipment and supplies during the year.

Financial Analysis of the Government's Funds

As noted earlier, the Fire Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As of the end of the current fiscal year, the Fire Board's governmental fund reported an ending fund balance of \$37,756, an increase of \$19,045 in comparison with the prior year. The *unreserved fund balance*, which is available for spending at the Fire Board's discretion, constitutes 100% of this total amount.

The only governmental fund is the General Fund of the Fire Board. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent 40% and 40%, respectively, of total general fund expenditures.

The fund balance of the General Fund increased by \$19,045 during the current fiscal year.

General Fund Budgetary Highlights

The Fire Board's budgets are prepared in accordance with Michigan Law. The only budgeted fund is the General Fund. The General Fund budget was amended in a legally permissible manner during the year.

Capital Asset and Debt Administration

Capital assets. The Fire Board's investment in capital assets for its governmental activities as of December 31, 2005, amounted to \$108,208 (net of accumulated depreciation). Investment in capital assets includes land, buildings, vehicles and equipment. Additions during the year totaled \$13,255 for the year.

Fire Board's Capital Assets (net of depreciation)

Land	\$	500	\$	500
Buildings		45,457		47,377
Machinery and equipment		62,251		71,301
<hr/>				
Total	\$	<u>108,208</u>	\$	<u>119,173</u>

Additional information on the Fire Board's capital assets can be found in note 5 on page 18 of this report.

Factors Bearing on the Fire Board's Future

The following factors were considered in preparing the Fire Board's budget for the year ending December 31, 2006:

- The Fire Department's budget is similar to the budget for 2005, with the exception of an anticipated decrease in grant activity. Our budgets were prepared with these factors in mind and will need to be revised as needed. If grants are received during the year, budgeted revenues and expenditures will be revised accordingly.

Requests for Information

This financial report is designed to provide a general overview of the Fire Board's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Sterling Area Fire Board
PO Box 168
510 State Street
Sterling, Michigan 48659

Sterling Area Fire Board
Statement of Net Assets
December 31, 2005

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 38,756
Receivables:	
Receivable from other governments	4,783
Capital assets-net	<u>108,208</u>
Total assets	<u>151,747</u>
 Liabilities	
Accounts payable	280
Deferred revenue	<u>5,503</u>
Total liabilities	<u>5,783</u>
 Net Assets	
Invested in capital assets	108,208
Unrestricted	<u>37,756</u>
Total net assets	\$ <u><u>145,964</u></u>

See accompanying notes to financial statements.

Sterling Area Fire Board
Statement of Activities
Year Ended December 31, 2005

Functions/Programs	Program Revenues			Governmental
	Expenses	Charges for Services	Capital Grants	Activities Net (Expense) Revenue and Changes in Net Assets
Governmental Activities				
Public safety				
Interest on Long-Term Debt	\$ 91,429	\$ 75,044	\$ 33,999	\$ 17,614
Total governmental activities	<u>\$ 91,429</u>	<u>\$ 75,044</u>	<u>\$ 33,999</u>	<u>\$ 17,614</u>
General Revenues:				
Interest earnings				119
Other				<u>3,361</u>
Total general revenues				<u>3,480</u>
Change in Net Assets				21,094
Net assets - beginning of year				<u>124,870</u>
Net assets - end of year				<u>\$ 145,964</u>

See accompanying notes to financial statements.

Sterling Area Fire Board
Governmental Funds
Balance Sheet
December 31, 2005

	<u>General Fund</u>
Assets	
Cash and investments	\$ 38,756
Receivables:	
Receivable from other governments	<u>4,783</u>
Total assets	<u>\$ 43,539</u>
Liabilities	
Accounts payable	\$ 280
Deferred Revenue	<u>5,503</u>
Total liabilities	<u>5,783</u>
Fund balances	
Unreserved:	
General Fund	<u>37,756</u>
Total fund balances	<u>37,756</u>
Total liabilities and fund balances	<u>\$ 43,539</u>
 Fund Balances - Total Governmental Funds	 \$ 37,756
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial financial resources, and are not reported in the funds.	
The cost of capital assets is	\$ 495,416
Accumulated depreciation is	<u>(387,208)</u>
	108,208
 Net Assets of Governmental Activities	 <u>\$ 145,964</u>

See accompanying notes to financial statements.

Sterling Area Fire Board
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended December 31, 2005

	<u>General Fund</u>
Revenues	
Contributions from local units	\$ 74,544
Federal grants	33,999
Interest earnings	119
Other	<u>3,861</u>
Total revenues	<u>112,523</u>
Expenditures	
Current:	
Public safety	66,973
Capital outlay	13,255
Debt service	<u>13,250</u>
Total expenditures	<u>93,478</u>
Net changes in fund balances	19,045
Fund balances - Beginning of year	<u>18,711</u>
Fund balances - End of year	<u><u>\$ 37,756</u></u>

See accompanying notes to financial statements.

Sterling Area Fire Board
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended December 31, 2005

Net Change in Fund Balances - Total Governmental Funds	\$	19,045
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Amounts reported for governmental activities are different because:

Government funds report capital outlays as expenditures;
in the statement of activities these costs are allocated
over their estimated useful lives as depreciation.

Depreciation expense	\$	(24,225)	
Capital Outlay		<u>13,255</u>	(10,970)

Repayments of installment purchases principal is an expenditure
in the governmental funds, but not in the statement of
activities (where it reduces long-term debt)

13,019

Change in Net Assets of Governmental Activities	\$	<u><u>21,094</u></u>
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See accompanying notes to financial statements.

Sterling Area Fire Board
Notes to Financial Statements
December 31, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Sterling Area Fire Board ("the Fire Board") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies used by the Fire Board:

Reporting Entity

The Sterling Area Fire Board is a Joint Fire Department authorized by 1951 PA 35, as amended; and, 1967 (EX Sess) 7, as amended. The Board serves three governmental units - Adams Township, Clayton Township and Deep River Township.

The Fire Board consists of three representatives from each government.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Fire Board's reporting entity, and which organizations are legally separate, component units of the Fire Board. Based on the application criteria, the Fire Board does not contain any component units.

Government-wide and Fund Financial Statements

The Government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Fire Board. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Fire Board's government-wide activities are considered governmental activities. The Fire Board does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a certain function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds.

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fire Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Annual contributions from member units and interest earnings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the cash is received by the Fire Board.

The Fire Board reports the following major governmental fund:

The General Fund is the Fire Board's primary operating fund. It accounts for all financial resources of the Fire Board, except those required to be accounted for in another fund.

Amounts reported as program revenue include: (1) charges to customers for goods, services or privileges provided, (2) operating grants and contributions and (3) capital grants and contributions. General revenue includes interest earnings and other revenues.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - All trade receivables are shown net of an allowance for uncollectible amounts, if applicable.

Sterling Area Fire Board
Notes to Financial Statements
December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include land, buildings and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Fire Board as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

Buildings, machinery and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and additions	50 years
Machinery and equipment	8-15 years
Office equipment	5 years

Compensated Absences - There is no liability for compensated absences reported in the government-wide financial statements since no Fire Board employees are provided with sick or vacation pay benefits.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriating or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. There are no reservations or designations at December 31, 2005.

Comparative Data/Reclassifications - Comparative data is not included in the Fire Board's financial statements.

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state laws for the general fund. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and activity center. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the activity center level. During the year, there were no amendments to the budget.

Sterling Area Fire Board
Notes to Financial Statements
December 31, 2005

Note 2 - Stewardship, Compliance and Accountability (Continued)

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until the receipt of materials or services. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances are reappropriated in the next year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Fire Board incurred expenditure in certain activity centers which were in excess of the amounts appropriated, as follows:

	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
Public Safety:			
Firehall	\$ 6,000	\$ 14,144	\$ 8,144
Capital outlay	-	13,255	13,255
Debt service	12,000	13,250	1,250

The participating units provide operating revenues for the Fire Board with a one mill levy collected on all real property located within the areas served by the Fire Board. The amounts contributed by Township are as follows:

<u>Unit</u>	
Adams Township	\$ 10,572
Clayton Township	20,993
Deep River Township	<u>42,979</u>
Total	\$ <u>74,544</u>

Note 3 - Deposits and Investments

A reconciliation of cash and investments as shown in the financial statements to the Fire Board's deposits and investments is as follows:

<u>Government-wide Financial Statement Captions:</u>	<u>Carrying Amounts</u>
Cash and cash equivalents	\$ <u>38,756</u>
Total	\$ <u>38,756</u>

The breakdown between deposits and investments for the Fire Board is as follows:

Deposits (Checking and savings accounts)	\$ <u>38,756</u>
	\$ <u>38,756</u>

Sterling Area Fire Board
Notes to Financial Statements
December 31, 2005

Note 3 - Deposits and Investments (Continued)

Interest rate

In accordance with its investment policy, the Fire Board will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: investing operating funds primarily in shorter term securities and limiting the average maturity in accordance with the Fire Board's cash requirements.

Credit risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRPs). The Fire Board has no investments for which ratings are required.

Custodial credit risk - deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Fire Board's deposits may not be returned to it. State law does not require and the Fire Board does not have a policy for deposit custodial credit risk. At December 31, 2005, none of the Fire Board's bank balances of \$39,623 was exposed to custodial credit risk because it was uninsured.

The Fire Board is authorized to designate depositories for Fire Board funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The Fire Board's deposits are in accordance with statutory authority.

Note 4 - Receivables

Receivables as of year-end for the Fire Board's major fund, including applicable allowances for uncollectible accounts, are as follows:

Receivables:		General Fund
Other governments	\$	4,783
	\$	<u>4,783</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Federal grants:		
Totals	\$ -	\$ 5,503
Total deferred revenue	\$ <u>0</u>	\$ <u>5,503</u>

Sterling Area Fire Board
Notes to Financial Statements
December 31, 2005

Note 5 - Capital Assets

Capital assets activity of the Fire Board's Governmental activities were as follows:

	Balance 1/1/2005	Additions	Deletions	Balance 12/31/2005
Capital assets not depreciated:				
Land	\$ 500	\$ -	\$ -	\$ 500
Capital assets being depreciated:				
Buildings	96,000	-	-	96,000
Machinery & equipment	385,661	13,255		398,916
Subtotal	<u>482,161</u>	<u>13,255</u>	<u>-</u>	<u>495,416</u>
Accumulated Depreciation				
Buildings	48,623	1,920	-	50,543
Machinery and equipment	314,360	22,305		336,665
Subtotal	<u>362,983</u>	<u>24,225</u>	<u>-</u>	<u>387,208</u>
Net capital assets being depreciated	<u>119,178</u>	<u>(10,970)</u>	<u>-</u>	<u>108,208</u>
Governmental Activities				
Total Capital Assets net of Depreciation	\$ <u>119,178</u>	\$ <u>(10,970)</u>	\$ <u>0</u>	\$ <u>108,208</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
Public safety	\$ <u>24,225</u>
Total governmental activities	\$ <u>24,225</u>

Note 6 - Long-Term Debt

Deep River Township borrowed \$132,466 from Citizens Bank on July 28, 1998 to purchase a fire truck from Ferrara Fire Apparatus, Incorporated. The monthly payment is \$1,892.87 at 5.25% interest for seven years. The Fire Board is leasing the truck for the monthly payment of \$1,892.87. Ownership will be transferred to the Fire Board when the loan is paid in full.

Changes in long term debt:

Balance 1/1/05	\$ 13,019
Payments	(13,019)
Balance 12/31/05	<u>\$ 0</u>

The interest expense for the Fire Board for the year was \$231.

Sterling Area Fire Board
Notes to Financial Statements
December 31, 2005

Note 7 - Risk Management

The Sterling Area Fire Board is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last three years.

Required Supplemental Information

Sterling Area Fire Board
Budgetary Comparison Schedule - General Fund
December 31, 2005

	Budgeted Amounts			Variance with
	Original Budget	Amended Budget	Actual	Amended Budget
Fund Balance - Beginning of year	\$ 29,835	\$ 29,835	\$ 18,711	\$ (11,124)
Resources (Inflows)				
Contributions from local units	71,000	71,000	74,544	3,544
Federal grants	42,000	42,000	33,999	(8,001)
Interest earnings	75	75	119	44
Other	-	-	3,861	3,861
Amounts available for appropriation	<u>142,910</u>	<u>142,910</u>	<u>131,234</u>	<u>(11,676)</u>
Charges to Appropriations (Outflows)				
Public safety:				
Treasurer	1,400	1,400	1,287	(113)
Firehall	6,000	6,000	14,144	8,144
Trucks	55,000	55,000	32,949	(22,051)
Other	20,000	20,000	18,593	(1,407)
Capital outlay	-	-	13,255	13,255
Debt service	12,000	12,000	13,250	1,250
Total charges to appropriations	<u>94,400</u>	<u>94,400</u>	<u>93,478</u>	<u>(922)</u>
Fund Balance - end of year	\$ <u>48,510</u>	\$ <u>48,510</u>	\$ <u>37,756</u>	\$ <u>(10,754)</u>